



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

EXECUTIVE OFFICE

November 22, 2002

In reply refer to: KFW

Energy Northwest
P.O. Box 968
Richland, Washington 99352

Dear Members of the Energy Northwest Executive Board:

Consistent with our commitment to provide you with annual updates, Bonneville Power Administration (BPA) has prepared this progress review of the Debt Optimization Program (Program) for FY 2002. As you are aware, this has been a challenging year for BPA as we have attempted to keep rates low and costs under control. Lower than expected revenues from power sales have severely impacted BPA's financial health and expectations for this rate period. At the same time, BPA is addressing renewed responsibilities to maintain the reliability and the capability of the hydroelectric and transmission system with increased infrastructure spending. Thus, the essence of the Program has been to assist BPA with its limited access to capital, as well as reduce costs where possible. As we look back over the last three years of the Program, we are pleased that debt optimization has moved forward smoothly in a manner consistent with the objectives of the Program, as well as the commitments BPA has made to the Executive Board regarding the results of the effort.

As you know, the success of the Program in achieving its goals is in the application by BPA of cash-flows from Energy Northwest (ENW) debt extensions to annually amortize additional Federal debt. As the attached table shows, ENW extended \$262 million principal due in 2002. This amount was applied to additional Federal amortization of Treasury debt for BPA fiscal year 2002, which ended on September 30, 2002. In addition to the \$262 million prepayment, BPA also made an additional \$4 million of Treasury prepayment this fiscal year for a total of \$266 million. This additional payment corrects an error from 2001.

BPA appreciates the continued support from the Executive Board on debt management. Our collaboration will continue to assure the most optimal results for the region's ratepayers. Your support enables our respective finance staffs to continue their endeavors to find the most efficient and cost effective debt management strategies within the overall guidelines of the Program. Your initiative in working with us on this program has refocused regional attention on the

importance of active management of the ENW and Federal debt. I strongly believe that this program brings great credit to both our organizations.

Thank you for your dedication and willingness to work with us on this program. Our combined efforts continue to produce the best results for the ratepayers of the Pacific Northwest.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen J. Wright". The signature is fluid and cursive, with the first name "Stephen" and last name "Wright" clearly distinguishable.

Stephen J. Wright
Administrator and Chief Executive Officer

Enclosure

2000 – 2002 Debt Optimization Results

Actual and Forecasted

Cash Flow from ENW Debt Management Actions

[illegible]

BPA's Application to Treasury Principal Payments

	2000	2001	2002
Net Cash Flow from ENW Debt Mgmt Actions	85	101	262
Scheduled Amortization	205	113	239
Total Amortization	290	210	505
Treasury Prepayment	85	97	266

Cumulative Treasury Prepayment	85	182	448
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Note: In FY 2001 BPA made a Treasury prepayment of \$97 million, but the amount should have been \$101 million, therefore, the payment in FY 2002 increased from \$262 million to \$266 million.

Totals may not add due to rounding.